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Table of Contents

The Year at a Glance	3
Directors and Officers	4
President's Report	6
Divisional Reports	
Imperial Tobacco Products	8
Imasco Food	10
Imasco Associated Products	12
Subsidiary Companies	14
Consolidated Statement of Earnings	15
Consolidated Statement of Retained Earnings	15
Consolidated Balance Sheet	16
Consolidated Statement of Source and Application of Funds	17
Notes to Consolidated Financial Statements	18
Ten Year Review	22
Auditors' Report	24
Transfer Agents	24
Registrars	24
Stock Exchange Listings	24
Banks	24

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Le Secrétaire
Imasco Limitée
4, square Westmount
Montréal, Canada
H3Z 2S8

Imasco Limited **Directors and Officers**

Imasco Limited is a multi-divisional company manufacturing consumer products and supplying consumer services in Canada and the United States. Principal products are tobacco and food. Services include retail outlets, automatic vending operations and television production facilities.

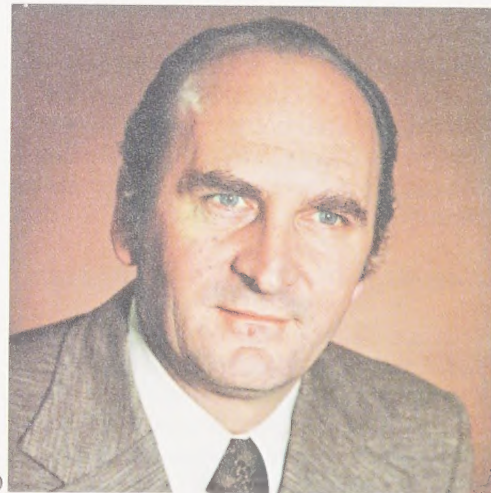
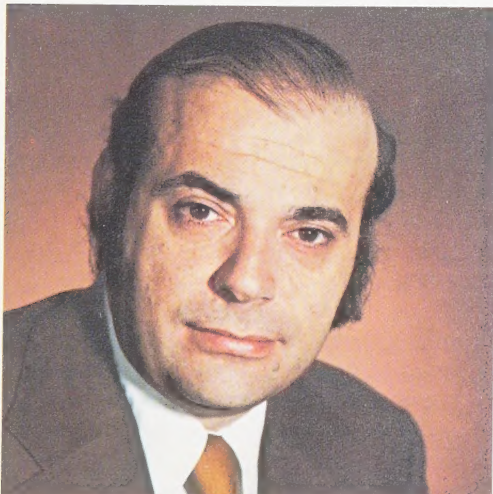
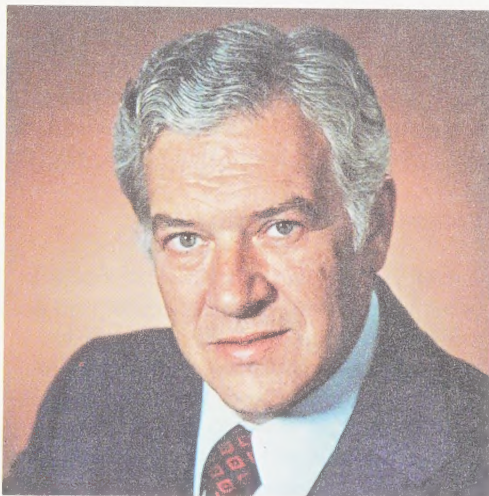
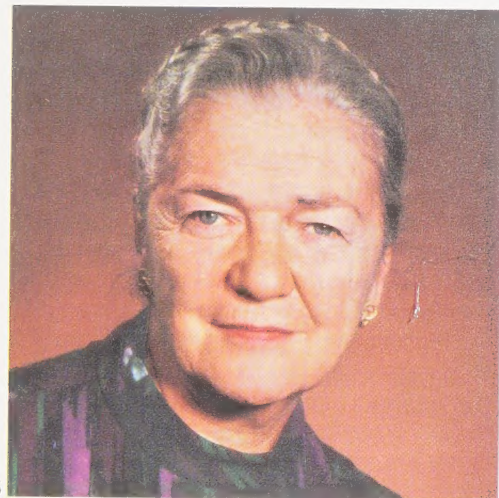
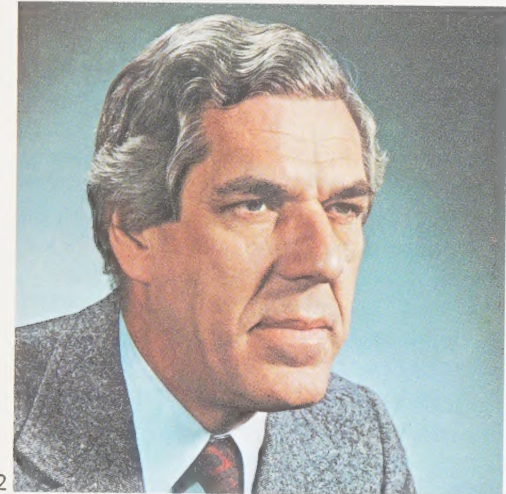


Directors

Paul Paré, 1
Claude Castonguay, 2
John H. Coleman, 3
Purdy Crawford, Q.C., 4
Pauline M. McGibbon, O.C., 5
L. Edmond Ricard, 6
George G. Ross, 7
John J. Ruffo, 8
Robert T. Ruggles, 9
Clifford Warren, 10

Officers

Paul Paré, President
Norman A. Dann, Vice-President
E. Peter Gage, Vice-President
Ian W. Murray, Vice-President
L. Edmond Ricard, Vice-President
George G. Ross, Vice-President
John J. Ruffo, Vice-President
Robert T. Ruggles, Vice-President
John F. Taormina, Vice-President
Clifford Warren, Vice-President
Norman J. Flynn, Secretary
Matthews Glezos, Treasurer
Ronald F. Findlay, C.A.,
Corporate Comptroller
Roger S. Ackman, Senior Counsel
John N. Economides, Assistant Treasurer



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Sales and earnings increased in all divisions in 1973, making the year a record one for the Company.

Sales for the year were \$717,102,000, an increase of 15 per cent over 1972. Net earnings were \$28,036,000 or \$2.86 a share compared with \$2.26 a share in 1972.

Earnings before income taxes and minority interest showed an increase of \$8,954,000, or 22 per cent, to \$49,715,000. This increase reflects the growth of the Company's operations before the inclusion of the benefits derived from the new corporate tax measures.

Dividends for the year, including an extra of 30 cents declared December 20, 1973, totalled \$1.20, 10 cents more than in 1972. This marks the third year in a row that dividends have been increased.

Acquisitions

During the year, retail activities were expanded through acquisitions in prescription drugs, health and beauty aids, sporting goods, automatic vending, and in tobacco shops in the US. The Food Division also enlarged its Mexican foods activities with the acquisition of Toltec Foods of Richmond, California.

In September, the Company took advantage of an opportunity to invest in the Canadian energy resources industry through the purchase of \$4.5 million principal amount of convertible debentures and 48,650 common shares of Canada Northwest Land Limited. This company is engaged in oil and gas exploration and production in North America and Europe.

Secondary Offering of Common Shares

Tobacco Securities Trust Company Limited, London, placed 500,000 of the Company's common shares on the Canadian securities market in November. This offering was well received and oversubscribed.

Employees Shares

Your board of directors took advantage of the secondary offering to give each regular employee one share of Imasco stock. Our purpose was to give tangible recognition to these employees' contribution to the success of the Company, and to introduce a large number of them to the experience of share ownership. This distribution has increased the number of Canadian shareholders by more than 5,000.

New Corporate Tax Measures

The new corporate tax measures introduced in 1972 are, in our opinion, a welcome stimulus to the expansion of industry in Canada. We have tried to take responsible advantage of these incentives and we were pleased to have the opportunity to discuss the results with a government representative in December.

Board of Directors

A major change in our Company policy was made in May when membership on our board of directors was opened to persons who are not members of management, that is, to non-employee directors. This change in policy was made to meet the needs of the Company as we extend and diversify our operations, and to anticipate legislation which will require the membership of non-employee directors on the boards and committees of public companies.

Mr. John H. Coleman, a director and former deputy chairman of the Royal Bank of Canada, joined our board in June. In November, Mr. Purdy Crawford, Q.C., was named to the board. Mr. Crawford is a senior partner in the Toronto law firm of Osler, Hoskin and Harcourt. Mr. Claude Castonguay became a director in January 1974. Mr. Castonguay is a partner in the Québec City actuarial firm of Pouliot, Guérard, Castonguay et Associés Inc., and former Québec Minister of Social Affairs.

I am sure that the views of these directors, based on their broad and diverse experience, will make a valuable contribution to the direction of the Company.

Dr. Pauline M. McGibbon, O.C., was appointed to our board in November, but indicated her intention to resign upon her appointment to the office of lieutenant governor of Ontario. We enjoyed the all too brief association with Mrs. McGibbon and we extend to her our warmest congratulations upon her accession to an office that is a fitting recognition of a career of devoted public service.

New By-Laws

The annual general meeting in April will be combined with a special general meeting for the purpose of obtaining shareholders' approval of three new by-laws. One by-law will authorize the formation of an executive committee, another will authorize the remuneration of directors, and the third will authorize the Company to classify all outstanding common shares as Class A shares and to create an equal number of Class B shares. The purpose in creating two classes of shares is to allow any shareholder to convert his shares from one class to another in order to take advantage of the relief from income tax on dividends available under recent changes in the Income Tax Act. Details of all three by-laws are set out in the Information Circular which has been sent to every shareholder.

Public Affairs

The changes in our board of directors are a reflection of both the changing character of your Company and the changing social and political climate in which we operate.

Public criticism of business continues and appears to be increasing. Where business was once criticized only for what it was doing wrong, it is now criticized for what it is not doing at all. There is a strong and growing demand for business to take

a more active and contributing role in public affairs, and the direction and management of a company now demand a broad viewpoint that increasingly takes in the social community as well as the economic community.

The market mechanism of the modern industrial society has never been equalled as a means of providing society with its material needs. This fact was at one time generally accepted. Today, concentration on economic progress is no longer enough. The businessman can no longer, it seems, take his own usefulness and public acceptance for granted. He must look outwards and examine the effectiveness of his role in society. He is required not only to continue to provide better products, employment, and a large proportion of the taxes to finance government, social services and the arts, but also to apply the resources and skills of industry to the improvement of society itself. Perhaps it is only in this way that he will again reconcile the public mind to the interdependence of profit and social usefulness.

Social considerations are, of course, not alien to the world of business. Involvement with them has traditionally been on the level of financial assistance to groups organized for social action. There is little experience to guide a company through corporate involvement in these activities and caution will have to be the watchword.

We shall, of course, continue to support financially those activities which we have in the past considered worthy. We shall also continue to encourage our employees to participate in social and charitable activities and assist them wherever possible with this work.

However we strive to conduct our affairs in the public interest, we must be ever mindful of our primary responsibility which is to remain in business on a profitable basis. If we cannot do this, we shall be in no position to help anyone.

We know that we shall stay in business only by satisfying consumer demand for as good or better products and services than our competitors' and at reasonable prices. We have never lost sight of this basic economic fact of life and we never shall.

Employees

To all of our employees I should like to extend, on behalf of the board and the shareholders, sincere appreciation for their contribution to the success of the Company in 1973.

On behalf of the board of directors



Paul Paré, President

Montréal, February 28, 1974

Divisional Report Imperial Tobacco Products

Tobacco Division sales at \$446,935,000 were up four per cent over 1972. Earnings at \$45,373,000 were up 12 per cent.

Cigarettes

Total industry sales of cigarettes in 1973 increased over 1972. Sales of some major Imperial Tobacco brands were up considerably, notably Player's Filter and du Maurier, which are now the fastest growing major brands in Canada. John Player Special, Imperial Tobacco's newest entry, continues to show favourable progress. The company's share of the cigarette market stabilized in 1973 and with major brands showing a rising sales trend, an increase in share is projected for 1974.

Cigars and Cut Tobacco

The total industry cigar sales were up in 1973. Imperial's volume growth of 7% out-paced the industry growth rate, primarily owing to the continued success of Colts.

Industry sales of fine cut rose during the year and competition for this market has sharpened. Imperial Tobacco marketed the Player's Home Workshop for roll-your-own cigarettes on a regional basis and this unit has proved popular.

Sales of domestic pipe tobaccos were down in 1973 while imported brands showed an increase. Borkum Riff sales rose as this imported Swedish blend continues to gain in popularity.

Plug tobacco sales continued their slow decline, but sales of Copenhagen and Skoal moist snuffs increased.

Marketing

Marketing activities, particularly for cigarettes, have changed significantly since the industry's withdrawal from broadcast advertising. More advertising is now associated with spectator events, although total advertising expenditures are down. Promotions such as the Peter Jackson Canadian Open Golf Cham-

pionship and the Player's motor sports events continue to draw public interest and provide brand name exposure. The du Maurier Council for the Performing Arts has become well-known for its support of theatrical and musical events across Canada.

Leaf Tobacco

The Ontario crop of flue-cured tobacco is expected to reach a volume of 237,000,000 pounds, some 13,000,000 pounds short of the target. The crop is of high quality and is obtaining good prices. Another large crop will be required in 1974 if leaf inventories are to be brought back to a level that will provide some security to the industry and satisfy the growing export market.

Labour Relations

The company's agreements with the Tobacco Workers International Union will expire in July 1974. Negotiations will certainly deal with demands for higher wages and increased benefits.

Costs

Manufacturing costs continued to climb in 1973 and the prospect is for a continuation of the trend in 1974. The industry, like many others, is faced with serious shortages of packaging materials and, consequently, higher prices for available stocks. Paper products are in particularly short supply world-wide, and little relief can be expected for some time.

Outlook

Everything possible is being done to control costs and to obtain raw materials at reasonable prices.

Cigarette sales in Canada should increase by about two per cent in 1974, the same as in 1973. This is approximately the rate of the population growth. Imperial Tobacco expects to obtain a proportionately higher share of this increase.

1969	1970	1971	1972	1973
380,924	435,249	418,049	430,372	446,935

Sales (thousands of dollars)

1969	1970	1971	1972	1973
26,209	32,720	35,865	40,360	45,373

Earnings (thousands of dollars)



Divisional Report
Imasco Food

Sales at \$161,773,000 were up 19 per cent over 1972. Earnings at \$5,681,000 were up 20 per cent.

Results were not only better than in 1972, but also higher than forecast. The performance of this division in the past year clearly indicates the high growth potential of the group.

S and W Fine Foods, Inc.

S and W increased sales of its established lines and introduced new products. Where material shortages occurred, the company was able to find sufficient supplies from alternative sources, or to compensate with higher sales of other lines.

The acquisition of Toltec Foods, Inc., of Richmond, California, represents a significant enlargement of S and W's commitment in the expanding Mexican foods market. Toltec produces and markets, ready-to-cook flour and cornmeal tortillas which are the base of such a large part of Mexican cookery.

Mexican foods introduced during the year were so well received that several others have been developed and are now being test-marketed. These are chiefly nutritious convenience foods, genuinely Mexican. Another new product, "Chili Makins", was test-marketed in December in the southwest United States where the popularity of canned chili is growing rapidly.

Sales of the Nutradiet line of dietetic products are increasing. A new label design planned for 1974 should widen the appeal of these products among the weight-conscious.

Progresso Foods, Inc.

Progresso's earnings from operations were well up over 1972. Sales of new spaghetti sauces, introduced in 1972, exceeded expectations. Four new Italian soups were launched in the New York area. In addition to these products, new

flavoured breadcrumbs and flavoured vegetable oil were also successfully marketed. A soy protein meat extender, "Extend'n'Flavor," was introduced. Nutritious as well as economical, it is available in four flavours and should prove popular in these days of high meat prices.

Progresso now produces a higher proportion of its foods in its own plant with consequent cost savings and dependability of quality and supply.

Unico Foods Limited

Sales and earnings were up over 1972 despite a three-week railway strike and a one-week work stoppage at the company plant.

Unico is expanding its market coverage and attracting an increasing segment of the non-Italian market to its quality food products. Sales and earnings are expected to increase again in 1974.

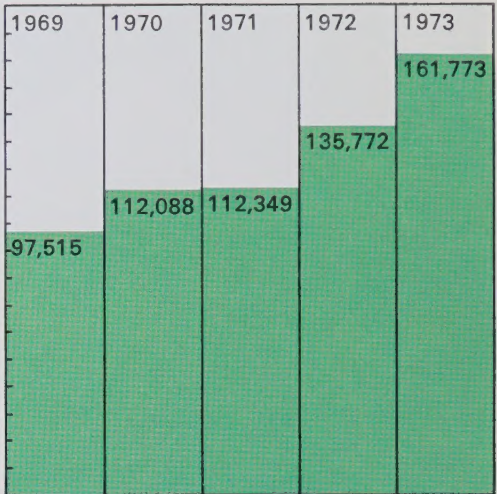
Grissol Foods Limited

Increased costs of raw materials and packaging also affected the operations of Grissol in 1973. However, the Grissol, Viau, and Taillefer divisions all recorded gains in sales and earnings. The Maple Leaf Chip division showed a loss, largely attributable to the poor potato crop in eastern Canada which required the importation of more expensive US potatoes.

Taillefer purchased a new building and it is expected to be in operation in March 1974.

Grissol expects no unsurmountable supply problems with food ingredients in 1974 although prices will probably continue to rise. As there will be continuing difficulty in obtaining adequate supplies of standard packaging materials, the use of alternatives is being explored.

Merchandising activities will be intensified to expand market coverage of all Grissol products, and 1974 should see further increases in sales and earnings.



Sales (thousands of dollars)



Earnings (thousands of dollars)

Outlook

Raw material costs will continue to rise and there will be shortages of some commodities. Alternative sources of supply are being located and new products developed to offset these shortages. Sales and earnings should increase as the division expands its production and marketing of unique specialty items and higher margin convenience foods which can be self-manufactured.



Divisional Report

Imasco Associated Products

The substantial growth in 1973 continues the trend in this division over the last several years. Sales at \$129,903,000 were up 76 per cent over 1972. Earnings at \$4,955,000 were up 63 per cent for the same period.

Operations were extended through internal growth and through acquisition in the areas of sporting goods retailing, prescription drugs and health and beauty aid retailing, automatic vending and tobacco retailing.

Retailing

United Cigar Stores Limited experienced a particularly good year. The careful and thorough review of all outlets was continued, resulting in the closing of some stores and the opening of others in more profitable locations. The once highly visible and distinctive fronts of corner stores have given way to growth in shopping complexes and commercial buildings to better meet consumer shopping habits. The company continued to seek out and obtain prime locations in the major hotels of the country and now serves the majority of these hotels with tobacco, gift and newsstand services.

Retail tobacco operations were extended in the US with the acquisition of The Tinder Box International, Ltd. At the time of acquisition, The Tinder Box was a chain of 55 franchised and company-owned, specialty tobacco stores, and has since opened a further 20 stores. The Tinder Box offers a variety of quality tobacco products, gifts and smokers' sundries. The shops are distinctive and carefully designed to appeal to pipe and cigar smokers. They are located where they will provide convenience shopping for the regular customers and maximum exposure to casual traffic.

During the year, the division entered the field of prescription drug retailing with the acquisition of Top Drug Marts Limited which operates 72 stores in Québec and Ontario. In recent months Hopedale

Pharmacy and Healthmart Drug were acquired. In addition to professional services, this chain offers a broad merchandise selection including health and beauty aids at attractive prices.

Sporting goods retailing was also expanded during the year with the acquisition in February of Arlington Sports Ltd., Montréal. Arlington has since opened four stores in Montréal and Ottawa and now comprises nine units. In August, the company acquired the assets of Ski Oberson Boutique Inc., a Québec sporting goods retailer now operating six stores in the province. Operations of Collegiate Sports Ltd. were also extended with the opening of a store in Burnaby, British Columbia, in June, and a third Toronto store in November.

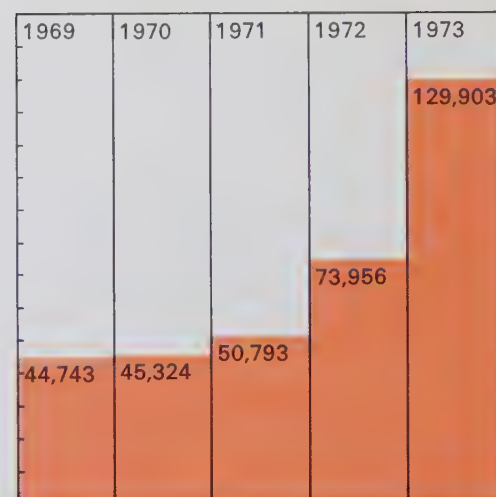
Automatic vending operations, under Amco Services Ltd., continued to expand. Office coffee services were enlarged with the acquisition of Eze Brew Coffee Service Ltd. and Executive Coffee Service Limited in Vancouver, and of Red Carpet Coffee Service in Toronto and Winnipeg. This is a growing field of operations and Amco Services is now one of the largest suppliers of automatic office coffee service in North America.

Television

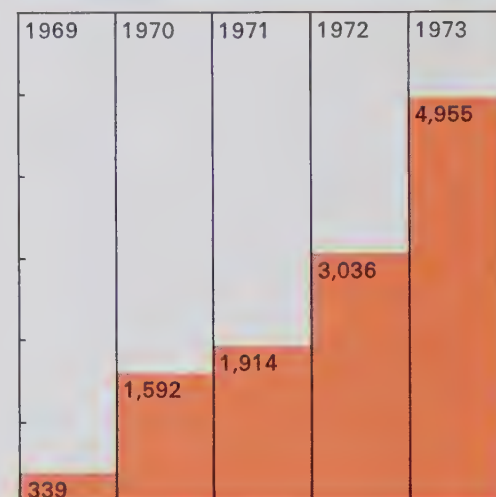
Editel Productions Ltd. has extended its operations in the United States with the opening of sales offices and production facilities in Chicago and Hollywood. The company also began marketing a new hand-held colour camera, the ENC-1. This camera can operate on batteries, giving the cameraman complete freedom of movement for those difficult shots in news and sports coverage.

Outlook

The division now has a firm base of profitable businesses with good growth potential. Operations will be consolidated within the areas of interest of these businesses and emphasis will be placed



Sales (thousands of dollars)



Earnings (thousands of dollars)

on internal expansion and selective acquisitions. Prospects are good for the long term.



Imperial Tobacco Products Division

Imperial Tobacco Products Limited
Montréal, Canada

Paul Paré, Chairman of the Board
L. Edmond Ricard, President
Peter R. Austin, Vice-President
Marius Dagneau, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
Thomas R. Lamont, Vice-President
André Laporte, Vice-President
Claude Mercier, Vice-President
Jean-Louis Mercier, Vice-President
and Comptroller
William J. Ross, Vice-President
J. I. Leonard Storey, Vice-President
Douglas G. Myers, Secretary

General Cigar Company Limited
Montréal, Canada

Imperial Leaf Tobacco Company
of Canada Limited
Montréal, Canada

Imasco Food Division

Imasco Foods Limited
Montréal, Canada

Clifford Warren, President
Gordon W. Fuller, Vice-President
Colin McKay, Vice-President
Ronald M. Statham, C.G.A., Comptroller

Unico Foods Limited
Toronto, Canada

Edward C. Pasquale, Jr., President
Nito Pasquale, Vice-President
Mrs. Georgina Madott,
Secretary/Treasurer

Grissol Foods Limited
Montréal, Canada

Yves Hudon, President
and General Manager
Roderick C. Foster, C.A., Vice-President
and Secretary/Treasurer
Romuald Frenette, Vice-President

Progresso Foods Corp.

Jersey City, New Jersey, U.S.A.
Nicholas R. Marona, President
Edward R. Granser, Vice-President
Edward Laraja, Vice-President
Robert W. Novak, Vice-President
F. John Simpson, Vice-President
Gasper Taormina, Vice-President,
Secretary/Treasurer and Comptroller
George J. Torggler, Vice-President

S and W Fine Foods, Inc.

San Francisco, California, U.S.A.
Ian W. Murray, President
Charles R. Angin, Vice-President
Marcel Casenave, Vice-President
Norman L. Correia, Vice-President,
Secretary and Comptroller
Irving J. Manning, Vice-President
Peter H. Mattson, Vice-President

Imasco Associated Products Division

Imasco Associated Products Limited
Toronto, Canada

John J. Ruffo, President
John F. Mathers, C.A., Vice-President
and Treasurer
Bruce S. McCubbin, Vice-President
John F. Taormina, Vice-President
Peter A. Thomson, Vice-President
and Secretary

Retail

United Cigar Stores Limited
Toronto, Canada

Hubert B. Wells, President

Top Drug Mart Limited
Toronto, Canada

Dr. Brian McGrath, Chairman

UCS Retail Consultants Limited
Toronto, Canada

Borden D. Joynt, President

Arlington Sports Ltd.
Montréal, Canada
Shalom Bloom, President

Collegiate Sports Ltd.
Toronto, Canada
John R. Lennox, President

Amco Services Ltd.
Vancouver, Canada
Donald R. Hoffman, President

Turnpike Cigar Stores, Inc.
Freeport, New York, U.S.A.
Robert Zank, President

The Tinder Box International, Ltd.
Santa Monica, California, U.S.A.
Karl L. Kolpin, Chairman
Edward A. Kolpin III, President

Television

Editel Communications Limited
Montréal, Canada
G. Ross Jebson, President

Consolidated Statement of Earnings

1973 1972

Thousands of dollars

Sales (Note 2)	717,102	625,613
Sales and excise taxes	250,539	246,082
	466,563	379,531
Operating costs	413,682	335,020
Earnings from operations (Note 2)	52,881	44,511
Income from investments	322	62
Interest expense	(3,488)	(3,812)
Earnings before income taxes	49,715	40,761
Income taxes	21,571	18,536
	28,144	22,225
Minority interest	108	63
Net earnings	28,036	22,162
Earnings per common share	\$2.86	\$2.26

Consolidated Statement of Retained Earnings

Retained earnings, beginning of year	74,829	75,173
Net earnings	28,036	22,162
Goodwill on consolidation of subsidiaries (Note 1)	(5,949)	(11,520)
Dividends (Note 3)	(11,953)	(10,986)
Retained earnings, end of year	84,963	74,829

The attached notes form an integral part of these statements.

**Imasco Limited
and Subsidiary Companies
December 31, 1973**

Consolidated Balance Sheet

		1973	1972
		Thousands of dollars	
Current assets	Cash and term deposits	2,943	3,346
	Accounts and notes receivable	50,414	52,943
	Inventories (Note 4)	154,586	128,479
	Prepaid expenses	1,973	1,690
	Total current assets	209,916	186,458
Current liabilities	Bank indebtedness	37,273	37,958
	Accounts payable and accrued liabilities	40,575	26,982
	Income, excise and other taxes	28,538	19,761
	Current portion of long term debt (Note 6)	1,924	2,558
	Dividends payable	2,901	1,934
	Total current liabilities	111,211	89,193
Working capital (net current assets)		98,705	97,265
Other assets	Investments (at cost) and notes receivable	12,099	9,237
	Deferred charges	5,021	5,006
	Fixed assets (Note 5)	66,843	62,826
	Goodwill, trademarks and patents	1	1
	Excess of assets over current liabilities	182,669	174,335
Other liabilities	Long term debt (Note 6)	35,005	36,667
	Deferred income taxes	5,927	6,381
	Minority interest	391	75
		41,323	43,123
	Excess of assets over liabilities	141,346	131,212
Shareholders' equity	Capital stock (Note 7)	54,153	54,153
	Capital surplus (Note 7)	2,230	2,230
	Retained earnings	84,963	74,829
		141,346	131,212

Approved by the Board,
Paul Paré, Director
G. G. Ross, Director

The attached notes form an integral part of these statements.

**Imasco Limited
and Subsidiary Companies
Year ended December 31, 1973**

Consolidated Statement of Source and Application of Funds		1973	1972
		Thousands of dollars	
Source of funds	Net earnings	28,036	22,162
	Depreciation	6,642	5,497
	Deferred income taxes	1,745	1,785
	Other non-cash items	114	275
	Funds provided from operations	36,537	29,719
	Sale of fixed assets	1,670	3,334
	Investments and notes receivable	1,463	2,420
	Sale of subsidiaries	10,387	—
	Working capital sold	(4,495)	—
	Other	293	—
		45,855	35,473
Application of funds	Purchase of subsidiaries	13,802	20,764
	Working capital acquired	(1,618)	210
	Net funds applied	12,184	20,974
	Dividends	11,953	10,986
	Past service pension liability (Note 8)	—	4,310
	Fixed assets	13,203	5,185
	Long term debt	2,575	2,080
	Investments and notes receivable	4,500	—
	Other	—	16
		44,415	43,510
Working capital	Increase (decrease) in working capital	1,440	(8,036)
	Beginning of year	97,265	105,343
	End of year	98,705	97,265
The attached notes form an integral part of these statements.			

Notes to the Consolidated Financial Statements

1. Principles of consolidation and related information

The consolidated financial statements include the accounts of Imasco Limited and all subsidiaries.
During the year, several businesses were acquired by the Imasco Food and Imasco Associated Products Divisions, principally food processing and retailing operations. All acquisitions have been accounted for as purchases. With respect to subsidiaries, substantially all voting shares were acquired. In 1972, the purchase of Grissol Foods Limited represented the Imasco Food Division acquisition.

	Food 1973	Retail 1973	Food 1972	Retail 1972
Number of businesses	4	23	1	15
	Thousands of dollars			
Total assets acquired	2,067	12,627	8,434	7,260
Adjustment to fair market value	—	—	1,899	—
Total liabilities assumed	(1,538)	(8,849)	(3,660)	(4,992)
Minority interest in net assets	—	(251)	(80)	(48)
Goodwill	768	8,978	7,733	4,218
Total cash consideration	1,297	12,505	14,326	6,438

Certain purchase agreements provide for payments to previous owners contingent upon continuing performance of these businesses and their participation in them. The amounts payable under these agreements based on 1973 performance have been accounted for as additional acquisition costs.

The company disposed of its holdings in Growers' Wine Company Limited and its subsidiaries in 1973. The results of these companies have not been included in the financial statements for the year ended December 31, 1973.

It is the company's practice to charge directly to retained earnings the excess of the purchase price of the subsidiaries over the value of their net assets at dates of acquisition (goodwill on consolidation of subsidiaries). In 1973, this excess was reduced by income tax savings amounting to \$1,574 (1972 \$431) and by a favourable adjustment to a prior year's acquisition cost of \$303.

In addition, as a result of the disposal of Growers' Wine Company Limited in 1973, \$1,920 of the goodwill previously charged to retained earnings has been realized. This amount has been applied to reduce the charge for goodwill on consolidation of subsidiaries.

United States dollar amounts have been translated to Canadian dollars on the following basis : net fixed assets and depreciation at exchange rates in effect at the appropriate acquisition dates ; all other assets and liabilities at exchange rates in effect at December 31st ; all earnings accounts, other than depreciation, at average exchange rates for the year.

Notes to the Consolidated Financial Statements

		1973	1972
		Thousands of dollars	
2. Operating results by division	Sales		
	Imperial Tobacco Products Division	446,935	430,372
	Imasco Food Division	161,773	135,772
	Imasco Associated Products Division	129,903	73,956
	Interdivisional transactions	(21,509)	(14,487)
		717,102	625,613
	Earnings from operations		
	Imperial Tobacco Products Division	45,373	40,360
	Imasco Food Division	5,681	4,725
	Imasco Associated Products Division	4,955	3,036
		56,009	48,121
	General administration	(3,128)	(2,930)
	Non-operating items	—	(680)
		52,881	44,511
	Included in the 1972 results of the Imasco Associated Products Division are sales of \$7,176 and earnings from operations of \$1,021 with respect to the wine operations disposed of in February 1973.		
3. Dividends	On 6% cumulative preference shares	348	348
	On common shares	11,605	10,638
		11,953	10,986
	The trust agreement relating to the series A debentures contains a restriction regarding the payment of dividends. At December 31, 1973 \$44,779 of retained earnings was free from such restriction.		
4. Inventories	Inventories by division, valued principally at average cost which does not exceed net realizable value, are :		
	Imperial Tobacco Products Division	77,200	79,360
	Imasco Food Division	47,266	35,626
	Imasco Associated Products Division	30,120	13,493
		154,586	128,479
5. Fixed assets and accumulated depreciation	Land	5,007	5,189
	Buildings	41,100	41,309
	Equipment	80,038	71,870
		126,145	118,368
	Accumulated depreciation	59,302	55,542
	Net fixed assets	66,843	62,826
	Fixed assets are stated at cost. Depreciation has been calculated on the straight line basis over the estimated useful lives of the assets.		

Notes to the Consolidated Financial Statements

		1973	1972
		Thousands of dollars	
6. Long, term debt	8½% sinking fund debentures series A due March 15, 1991	32,900	33,950
	Less held in treasury	2,102	700
		30,798	33,250
	U.S. dollar loan payable in annual instalments to March 31, 1975 bearing interest at New York prime bank rate less 1%	1,992	2,881
	Other long term obligations	4,139	3,094
		36,929	39,225
	Less current portion	1,924	2,558
		35,005	36,667
	Required payments during the next five years including \$1,050 annual sinking fund payments on the 8½% sinking fund debentures amount to : 1974 \$1,924 ; 1975 \$3,021 ; 1976 \$1,467 ; 1977 \$1,454 ; 1978 \$1,376.		
	The company will surrender \$1,050 of the 8½% series A debentures held in treasury in order to fulfil its total 1974 sinking fund obligation.		
7. Capital stock	6% cumulative preference shares, par value \$4.86¼ each		
	Authorized and issued 1,650,000 shares		
	Less purchased for cancellation 458,112 shares		
	Outstanding 1,191,888 shares	5,800	5,800
	Redeemable sinking fund preference shares, par value \$25 each		
	Authorized 200,000 shares		
	Issued nil		
	Common shares, no par value		
	Authorized 10,800,000 shares		
	Issued 9,670,532 shares	48,353	48,353
		54,153	54,153
	Capital surplus consists of amounts transferred from retained earnings, as required by the Canada Corporations Act, in respect of 6% cumulative preference shares purchased for cancellation.		

Notes to the Consolidated Financial Statements

1973 1972

Thousands of dollars

8. Supplemental information	The following items have been charged in determining net earnings :		
	Depreciation	6,642	5,497
	Interest on long term debt	3,016	3,065
	Deferred income taxes	1,745	1,785
	Remuneration of directors and senior officers		
	Directors		
	Number at December 31st, 1973, 9 ; 1972, 8		
	Number during the year 1973, 13 ; 1972, 10		
	At December 31, 1973, six directors were also officers. (1972, all directors were officers)		
	Officers		
	Number at December 31st, 1973, 15 ; 1972, 17		
	Number during the year 1973, 17 ; 1972, 19		
	Aggregate remuneration of directors as directors	5	—
	Aggregate remuneration of officers including directors who are also officers	1,744	1,555
	Pension plans		
	The companies have pension and retirement plans available to substantially all of their employees. Costs charged against earnings include amounts for current and past services. The unfunded past service liability arising from recent improvements in some of these plans is estimated to be \$15,635 (1972, \$16,043). This will be paid and charged to earnings over a seventeen year period ending in 1990. Other past service costs of \$4,310 which were paid in 1972 and included in deferred charges are being charged to earnings over the same period.		
	Long term leases		
	The companies have outstanding commitments with respect to real estate leases most of which are for terms of from five to ten years. Rentals for such leases amounted to \$5,301 (1972, \$3,239) and the minimum annual rental under such leases amounts to approximately \$5,101 before giving effect to escalation and percentage of sales clauses in certain of the leases.		
	Comparative figures		
	Certain minor balance sheet changes have been made to the 1972 comparative figures to comply with the 1973 presentation.		

Statistical Highlights — Ten Year Review

		1973	1972
Sales and earnings	Sales	717,102	625,613
	Depreciation	6,642	5,497
	Earnings before income taxes	49,715	40,761
	Income taxes	21,571	18,536
	Net earnings before extraordinary items	28,036	22,162
	Net earnings after extraordinary items	28,036	22,162
	Earned on common shares before extraordinary items	27,688	21,814
	Per common share (in dollars)	2.86	2.26
Dividend record	On preference shares	348	348
	On common shares	11,605	10,638
	Per common share (in dollars)	1.20	1.10
Capital expenditures	On fixed assets	13,203	5,185
Financial position	Current assets	209,916	186,458
	Current liabilities	111,211	89,193
	Working capital	98,705	97,265
	Investment in non-consolidated subsidiaries including loans and advances	—	—
	Fixed assets (before depreciation)	126,145	118,368
	Fixed assets (less depreciation)	66,843	62,826
	Long term debt	35,005	36,667
	Excess of assets over liabilities	141,346	131,212
Shareholders' equity	Preference shareholders	5,800	5,800
	Common shareholders	135,546	125,412
	Per common share (in dollars)	14.02	12.97

1964/68 revised in accordance with 1969 presentation.

1966 and 1968 revised to include subsidiaries not consolidated in those years.

1971	1970	1969	1968	1967	1966	1965	1964
(Thousands of dollars, except 'per common share' statistics)							
569,629	582,163	512,987	421,265	393,315	373,069	366,262	351,456
4,431	4,132	4,371	4,075	4,135	3,835	3,486	3,372
34,176	31,110	26,016	24,730	25,237	24,637	26,778	23,807
16,349	15,154	12,540	12,207	11,656	11,624	12,832	11,228
17,661	15,691	13,383	12,465	13,581	13,013	13,946	12,579
17,539	15,691	12,226	12,646	13,581	13,013	13,946	12,579
17,313	15,343	13,035	12,112	13,215	12,619	13,533	12,156
1.79	1.59	1.35	1.25	1.37	1.30	1.40	1.26
348	348	348	353	366	394	413	423
9,671	7,736	7,736	7,736	7,736	8,461	7,253	7,011
1.00	.80	.80	.80	.80	.87½	.75	.72½
6,642	12,104	4,033	4,404	5,187	8,451	3,491	2,740
174,230	173,779	167,818	125,562	124,295	115,964	120,765	124,015
68,887	74,692	72,168	36,465	32,507	27,786	31,300	28,815
105,343	99,087	95,650	89,097	91,788	88,178	89,465	95,200
—	—	—	17,855	14,821	13,425	13,077	—
104,563	98,031	89,360	81,257	78,044	75,215	67,076	64,928
56,087	53,508	47,056	40,221	38,845	38,198	33,195	33,808
37,349	34,476	36,956	2,261	2,261	2,261	2,262	7,035
131,556	127,031	119,221	139,746	137,929	133,366	129,643	123,966
5,800	5,800	5,800	5,830	5,973	6,518	6,766	6,973
125,756	121,231	113,421	133,916	131,956	126,848	122,877	116,993
13.00	12.54	11.73	13.85	13.65	13.12	12.71	12.10

Auditors' Report

To the Shareholders of Imasco Limited

We have examined the consolidated balance sheet of Imasco Limited and subsidiary companies as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells

Chartered Accountants
3210 The Royal Bank of Canada Building
Place Ville Marie
Montréal, Canada
H3B 2W3

February 22, 1974

Transfer agents

Crown Trust Company, Montréal
The Royal Trust Company, Halifax, Toronto, Calgary, Vancouver

Registrars

Montreal Trust Company, Halifax
National Trust Company, Limited, Montréal, Toronto, Vancouver
The Royal Trust Company, Calgary

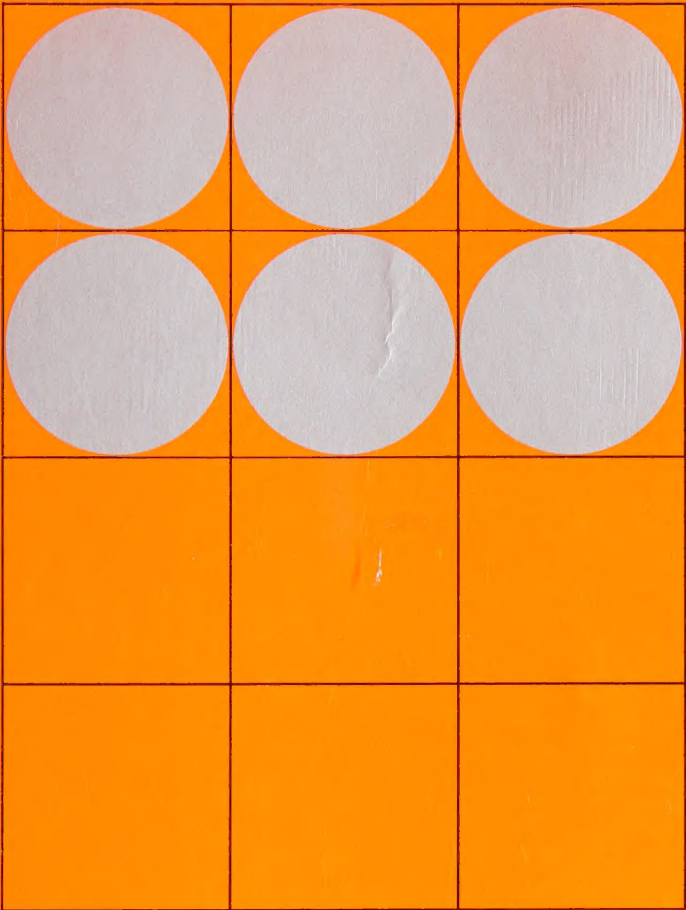
Stock exchange listings

Montréal, Toronto, Vancouver and London, England

Banks

The Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Bank of Nova Scotia
National Canadian Bank

AR28



Consolidated Statement of Earnings	1973	1972
	Thousands of dollars	
Sales	333,199	288,164
Sales and excise taxes	120,025	115,978
	213,174	172,186
Operating costs	190,018	152,332
Earnings from operations	23,156	19,854
Income from investments	265	32
Interest expense	(1,780)	(2,065)
Earnings before income taxes	21,641	17,821
Income taxes	9,479	8,416
Minority interest	33	33
Net earnings	12,129	9,372
Per common share	1.24	.95

Subject to year-end audit and adjustment

To our shareholders

Earnings and sales for the first six months of 1973 were higher than those for the corresponding period in 1972.

Earnings

Consolidated earnings were \$12,129,000 or \$1.24 a share, an increase of \$2,757,000 or 29 cents a share, up 30 per cent over the same period last year.

First quarter reported earnings of 48 cents a share have been restated to 55 cents to reflect the recent changes in tax legislation which provide a lower income tax rate for manufacturing companies.

Second quarter earnings were \$6,759,000 or 69 cents a share compared with \$5,297,000, or 54 cents a share in the same period in 1972.

Sales

Consolidated sales at \$333,199,000 were up \$45,035,000 or 16 per cent. Sales in the second quarter were \$180,823,000, up \$28,611,000 or 19 per cent over last year.

Consolidated earnings and sales for the first half of 1972 were restated to include the results of Grissol Foods Limited from its effective date of acquisition, May 1, 1972. Grissol was not included in the 1972 interim results as the acquisition had not been finalized at the time of publication.

Earnings and sales increased in all three divisions of the Company during the six month period. Following is a breakdown of sales by division.

	1973 Thousands of dollars	1972	In- crease
Imperial Tobacco			
Products Division	214,704	205,274	5%
Imasco Food Division	75,514	60,016	26%
Imasco Associated			
Products Division	51,639	29,285	76%
Interdivisional elimination	(8,658)	(6,411)	(35%)
	333,199	288,164	16%

Imperial Tobacco Products Division

While total industry cigarette sales increased in the first six months, the increase recorded by Imperial Tobacco was proportionally greater than that of the industry as a whole. Player's Filter, du Maurier and Cameo all showed higher sales.

The company's cigar sales increased eight per cent, with regular size cigars up four per cent and little cigars up nine per cent. Colts continue to lead the cigar market in popularity with sales up 24 per cent over the first half of 1972.

The Canadian tobacco industry is looking to a bumper crop of flue-cured tobacco in Ontario this year to meet current and future needs and to replenish inventories badly depleted as a result of the short crop in 1972. Ontario growers have planted for a target crop of 250,000,000 pounds. Up to the time of writing, weather has been favourable and prospects for the full crop look promising. A world shortage of good quality cigarette tobacco exists at present and Canadian leaf should find a ready and profitable export market this year.

Imperial Tobacco continues its long term plans for rationalizing production facilities to increase efficiency and reduce costs. The phase-out of operations at the General Cigar Company plant in Montreal and the transfer of production to the Joliette and Montreal plants was announced in June. These moves will be carried out over several years to assure an orderly transition and to minimize the impact on the employees affected.

Imasco Food Division

Food division sales, up 26 per cent over the first half of 1972, reflect both the inclusion of Grissol Foods Limited for the full six months and higher sales in the other companies in the division.

The economies of both the US and Canada are buoyant and demand for the companies' products remains strong.

The Mexican foods division of S and W Fine Foods, Inc., Rancho Francisco, was strengthened in May with the acquisition of Toltec Foods, Inc. of Richmond, California.

Rancho Francisco recently introduced new products to selected markets in California.

All companies in the division have increased earnings and enlarged their markets in the six months period. Some food items which have become temporarily unavailable or limited in supply as a result of world shortages are being replaced with other products and the upward trend in sales should continue.

Imasco Associated Products Division

Increased sales and earnings, expansion of existing businesses and acquisition of new ones marked the activities of this division in the first half of the year. The division also disposed of all its wine businesses in February, as previously reported.

In Canada, the division entered the field of chain drug marts with the acquisition of Top Drug Marts and Hope-dale Pharmacy Limited, Toronto.

Sporting goods retailing was enlarged with the acquisition of Arlington Sports Limited of Montreal in February and the opening of a new Collegiate Sports outlet in Vancouver in June.

Vending operations were also enlarged through the acquisition of several regional vending companies, principally in western Canada. The division now operates well over 5,000 units. US operations were expanded with the acquisition of The Tinder Box International Limited, a chain of tobacco specialty shops, with head office in Santa Monica, California.

Board of Directors

In May, we announced a change in policy whereby membership on the Board would be opened for the first time to directors who are not employees of the Company. At a meeting of the directors on August 3rd, I was pleased to welcome Mr. John H. Coleman, the first such director to become a member of our Board.

Outlook

Progress in the first six months has been satisfactory and the trend to increased sales and earnings in all divisions should continue for the balance of the year.



Paul Paré, President

Montreal, August 7, 1973

**Imasco Limited
and subsidiary companies
Six months January to June**

Consolidated Statement of Source and Application of Funds	1973	1972
	Thousands of dollars	
<i>Source of funds</i>		
Net earnings	12,129	9,372
Depreciation	2,922	2,352
Other non-cash items	646	(613)
Funds provided from operations	15,697	11,111
Sale of fixed assets	294	1,016
Sale of subsidiary company	10,397	—
Notes receivable and investments	1,343	1,719
Other	237	(503)
	27,968	13,343
<i>Application of funds</i>		
Purchase of subsidiaries	6,321	1,716
Working capital of subsidiaries sold – net of subsidiaries acquired	3,520	245
Dividends	4,526	4,526
Fixed assets	4,299	2,013
Long term debt	2,263	1,638
	20,929	10,138
<i>Increase in working capital</i>	7,039	3,205

Subject to year-end audit and adjustment

